

# **Report of the auditor-general to Limpopo provincial legislature and the council on Greater Giyani Local Municipality**

## **Report on the audit of the financial statements**

### **Adverse opinion**

1. In my opinion, because of the significance of the matters described in the basis for adverse opinion section of my report, the financial statements do not present fairly, in all material respects, the financial position of the Greater Giyani Local Municipality as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with applicable South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2016 (Act No. 3 of 2016) (DoRA).
2. I have audited the financial statements of the municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

### **Basis for adverse opinion**

#### **Prior period errors**

3. SA Standards of GRAP 3: *Accounting policies, change in accounting estimates and errors* requires all material prior period errors to be corrected retrospectively by restating the comparative amounts for the periods in which the error occurred by disclosing the nature of the prior period error, the amount, and the financial line item affected. The municipality did not provide sufficient audit evidence to substantiate that all prior period errors have been included in note 34 to the annual financial statements as per the requirements of GRAP 3. I was unable to confirm these disclosures by alternative means. Consequently, I was unable to determine whether any adjustments were necessary to the previous period errors disclosed in the financial statements. There is a consequential impact on the statement of changes in net assets.

#### **Property, plant and equipment**

4. The municipality did not recognise infrastructure assets in accordance with SA Standards of GRAP 17, *Property, plant and equipment*. I identified community assets amounting to R14 783 270 which were not split into significant components. There is a consequential impact on the carrying value of the assets and depreciation in the annual financial statements.
5. I identified differences of R58 793 328 between the balance of property, plant and equipment disclosed in note 2 to the annual financial statement and the underlying accounting records. Consequently, property, plant and equipment and depreciation are

misstated by R58 793 328 and R5 370 459 respectively. There is a consequential impact on the surplus for the period and on the accumulated surplus

#### Commitments

6. The municipality did not adequately disclose commitments in accordance with SA Standards of GRAP 1, *Presentation of financial statements*. Some of the expenses in the commitments were recorded at incorrect amounts. Consequently, the commitments as per note 31 to the financial statements are overstated by R8 987 427.

#### Provisions

7. The municipality did not provide appropriate and sufficient audit evidence for the amount disclosed in the statement of financial position for landfill site rehabilitation provision and supporting evidence for the estimate in accordance with SA Standards of GRAP 19, *Provisions, Contingent Liabilities and Contingent Assets*. Consequently, I could not perform alternative procedures to determine whether any adjustment to the landfill site rehabilitation provision amounting to R14 360 143 (2015-16: R14 799 593) in note 13 to the financial statements was appropriate.

#### Payables from exchange transactions

8. The municipality did not fully account for payables from exchange transactions, as accruals amounting to R4 898 638 were not recorded. Consequently, payables from exchange transactions as disclosed in note 14 to the annual financial statements are understated by R4 898 638 and general expenditure as per note 27 is understated by the same amount. There is a consequential impact on the surplus for the period and on the accumulated surplus.
9. Furthermore, I identified a difference of R7 789 292 between payables from exchange transactions as per note 14 to the financial statements and the underlying accounting records. Consequently, the payables from exchange transactions have been overstated by R7 789 292.
10. I was unable to obtain sufficient appropriate audit evidence for other payables amounting to R14 997 624 as the municipality did not provide underlying supporting documentation. I could not confirm the amount by alternative means. Consequently, I was unable to determine whether any adjustments to payables from exchange transactions stated at R67 799 012 (2015-16: R58 014 436) and the inter-municipal account stated at R24 686 083 (2015-16: R7 797 323) as per note 14 to the annual financial statements was necessary.

#### Investment property

11. The municipality incorrectly classified land as investment property in accordance with SA Standards of GRAP 16, *Investment Property*. I identified land amounting to R14 865 000 which does not belong to the municipality but has been accounted for as investment property. Consequently, investment property as per note 2 is overstated by R14 865 000.

#### Revenue from exchange transactions

12. The municipality did not recognise all revenue from exchange transactions in accordance with SA Standards of GRAP 9, *Revenue from Exchange Transactions*. The municipality

did not charge interest on overdue accounts for three months during the financial year under review. Consequently, revenue is understated by R3 543 477 and receivables from exchange transactions as per note 7 to the financial statements is understated by the same amount. Additionally, there is a consequential impact on the surplus for the period and on the accumulated surplus.

#### Consumer debtors

13. The municipality did not adequately disclose interest on overdue consumer debtors in accordance with SA Standards of GRAP 1, *Presentation of Financial Statements*. The municipality did not provide sufficient appropriate audit evidence for interest on overdue accounts as disclosed in the financial statements. Consequently, I was unable to determine whether any adjustments to consumer debtors stated at R10 289 260 (2015-16: R20 196 629) as per note 10 to annual financial statements are required. Additionally, there is a consequential impact on interest revenue for the period.

#### Revenue from non-exchange transactions

14. The municipality did not recognise all revenue from non-exchange transactions in accordance with SA Standards of GRAP 23, *Revenue from Non-exchange Transactions*. Properties within the municipality's jurisdiction were not included in the accounting system and property rates amounting to R6 557 867 were not charged. Consequently, revenue from non-exchange transactions stated at R33 865 255 in note 20 to the annual financial statements is understated by R6 557 867 and receivables from non-exchange transactions stated at R24 939 833 in note 8 to the annual financial statements is also understated by the same amount.

#### Unauthorised expenditure

15. The municipality did not include unauthorised expenditure in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This resulted from payments made in excess of the approved budget, resulting in unauthorised expenditure of R38 390 589.

#### Irregular expenditure

16. The municipality did not include the full extent of irregular expenditure incurred in the notes to the financial statements, as required by section 125(2)(d) of the MFMA. This resulted from payments made in contravention of the supply chain management requirements, resulting in irregular expenditure being understated by R4 266 460. The municipality does not have an adequate system to detect and report on all irregular expenditure incurred. Consequently, I was unable to determine whether any further adjustments relating to irregular expenditure disclosed at R8 731 321 disclosed in note 37 to annual the financial statements, was necessary.

#### GRAP 104 disclosure

17. The municipality did not disclose the quantitative disclosures in the financial statements as required the SA Standards of GRAP 104, *Financial Instruments*.

## **Context for the opinion**

18. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
19. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
20. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my adverse opinion.

## **Emphasis of matters**

21. I draw attention to the matter below. My opinion is not modified in respect of these matters.

### Material Impairments

22. As disclosed in note 25 to the financial statements, material losses to the amount of R25 229 239 were incurred as a result of a write-off of irrecoverable trade debtors.

### Material underspending of conditional grants

23. As disclosed in note 21 to the annual financial statements, the municipality has materially underspent on the municipal infrastructure grant by an amount of R9 374 624. The underspending relates to poor planning and delays in the tender processes on capital projects. The allocated grants were not in all instances utilised, consequently the municipality has not achieved its objectives of rendering quality services to the community.

## **Other Matters**

24. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Unaudited disclosure notes

25. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and accordingly, I do not express an opinion thereon.

### Unaudited supplementary schedules

26. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **Responsibilities of accounting officer**

27. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with SA standards of GRAP and the requirements of the PFMA and DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
28. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of financial statements**

29. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
30. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

### **Report on the audit of the annual performance report**

#### **Introduction and scope**

31. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
32. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
33. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2017:

<b>Development priorities</b>	<b>Pages in the annual performance report</b>
KPA 1: Spatial rationale	x – x
KPA 3: Basic service and infrastructure development	x – x
KPA 4: Local economic development	x – x

34. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
35. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

#### **KPA 1: Spatial Rationale**

##### **Building plans assessed by 30 June 2017 (number of building plans assessed/number of building plans received) by 30 June 2017**

36. The reported achievement of the targeted 100% of building plans assessed by 30 June 2017 was misstated as the evidence provided indicated 59% achievement and not 100% as reported.

##### **Percentage of application for land use rights inspection conducted within 14 days by 30 June 2017**

37. The reported achievement of the targeted 100% of application for land use rights inspection conducted within 14 days/application received by 30 June 2017 was misstated as the evidence provided indicated 56% achievement and not 100% as reported.

##### **Percentage of rezoning, subdivision, special consent and consolidation applications assessed by 30 June 2017**

38. The reported achievement of the targeted 100% of applications processed/applications received by 30 June 2017 was misstated as the evidence provided indicated 50% achievement instead of 100% as reported.

##### **Percentage of application for permission to occupy attended to within 90 days after receipt by 30 June 2017**

39. The reported achievement of the target 100% application received/applications attended to within 90 days by 30 June 2017 was misstated as the evidence provided indicated 30% achievement instead of 100% as reported.

#### **KPA 3: Basic service and infrastructure development**

##### **To connect 637 households at Mniningini Block 3 by 30 April 2017**

40. The reported achievement for the target of 637 households at Mniningini block 3 connected with electricity by 30 April 2017 was misstated as the evidence provided indicated 557 and not 637 as reported.

**To connect 360 households at Bambeni by 31 December 2016**

41. The reported achievement for the target of 360 households at Bambeni connected with electricity by 31 December 2016 was misstated as the evidence provided indicated 301 and not 360 as reported.

**To connect 269 households at Gandlanani and Silawa by 31 December 2016**

42. The reported achievement for the target of 269 households at Gandlanani and Silawa connected with electricity by 31 December 2016 was misstated as the evidence provided indicated 236 and not 269 as reported.

**Number of environmental awareness to be conducted by 30 June 2017**

43. The reported achievement for 8 awareness campaigns and educational programs to be conducted was misstated as the evidence provided indicated 16 and not 8 as reported.

**To connect 510 households at N'wamankena and Dingimazi by 30 June 2017**

44. The reported achievement for the target of 510 households at N'wamankena and Dingimazi Connected with electricity by 30 June 2017 was misstated as the evidence provided indicated 150 and not 510 as reported.

**To upgrade parking lot at civic centre and brickyard by 30 June 2017**

45. The reported achievement for the target for upgrading of parking lot at civic centre and brickyard by 30 June 2017 was misstated as the evidence provided indicated 0 and not 2 as reported.

**KPA 4: Local Economic Development**

**Number of SMME's to be trained by 30 June 2017**

46. The reported achievement for target of 10 SMME's to be trained by 30 June 2017 was misstated as the evidence provided indicated 20 and not 10 as reported.

**Other matters**

47. I draw attention to the matters below.

**Achievement of planned targets**

48. Refer to the annual performance report on page(s) (x to x; x to x) for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph(s) x; x; x of this report.

**Adjustment of material misstatements**

49. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1: Spatial rationale, KPA 3: Basic service delivery and infrastructure development and KPA 4: Local economic development. As management did not correct the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on audit of compliance with legislation**

### **Introduction and scope**

50. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
51. The material findings on compliance with specific matters in key legislations are as follows:

### **Annual financial statements**

52. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
53. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected or the supporting records could not be provided subsequently, which resulted in the financial statements receiving an adverse audit opinion.

### **Procurement and contract management**

54. Awards were made to providers who are in service of other state institutions, in contravention of section 112(j) of the MFMA and Supply Chain Management Regulation (SCM regulation) 44.
55. Invitations for competitive bidding were not always advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2)
56. Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
57. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).

### **Liability management**

58. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

59. An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 63(2)(c) of the MFMA

### **Revenue management**

60. A credit control and debt collection policy was not implemented as required by section 96(b) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) and section 62(1)(f)(iii) of the MFMA.

61. An effective system of internal control for receivables and revenue was not in place, as required by section 64(2)(f) of the MFMA.

62. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

### **Expenditure management**

63. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the irregular expenditure was caused by deviations from procurement processes and procedures.

64. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

### **Asset management**

65. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2) (a) of the MFMA.

66. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.

### **Internal control deficiencies**

67. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for adverse opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

### **Leadership**

68. Management did not provide adequate supervision and review over the operations of the municipality to ensure compliance with laws and regulations and to appoint the necessary skilled staff.

69. An action plan was developed to address internal control deficiencies, however the plan was not adequately monitored, hence the recurrence of findings identified in the prior year

## **Financial and performance management**

70. Controls and review over daily and monthly recording and reconciliation of transactions and account balances to ensure that the municipality complies with applicable financial reporting and legislation were not implemented by the accounting officer.
71. Compliance with laws and regulations was not reviewed and monitored by the accounting officer.

## **Governance**

72. The municipality does not have a risk management committee and this led to the risk management strategy not being reviewed for effective implementation.
73. Recommendations by those charged with governance and internal audit are not effectively implemented.

Auditor General  
Polokwane

05 February 2017



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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected programmes and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause the municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
  
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.